**A Study on the Impact of Education on the Financial Literacy of Indians**

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**Abstract:**

Financial literacy is the necessity of today’s unpredictable and dynamic scenario. The Indian education system emphasises on increasing income but it somewhere lacks in teaching how to manage money. Financial literacy creates a base for financial empowerment.  For the growth of developing countries like India, financial literacy plays a prominent role. Financial illiteracy of persons trashes the efforts of the Indian Government towards improving the Indian financial literacy rate. Although there are numerous factors behind the awareness of financial literacy, this study is an attempt to find out the important factors that influence the rate of financial literacy in India. To achieve this objective, the primary data has been collected through a structured questionnaire filled by 363 respondents. To extract the factors, factor analysis through SPSS 25 has been applied. The results came out with 6 important factors.

**Keywords**: Education, Financial literacy, Educational system, Financial Awareness, Financial Literacy Rate

**Introduction:**

As per the Organization for Economic Co-operation & Development (OECD), Financial Literacy is “a mix of financial awareness, knowledge, skills, attitude and behaviour which is important to make proper financial decisions and at the end achieve individual financial well-being” (OECD, 2011). Financial Education means a process to increase understanding of financial products, with the help of information and instructions available to develop the skills and confidence to take financial risks and avail opportunities, and to know different sources available in the market which can help in improving financial well- being (OECD, 2005). Financial literacy is the ability to utilise knowledge and skills to take effective and informed decisions regarding money.

Piprek et al. (2004), observed that financial literacy involves the ability for judgment and discretion. Financial literacy includes gaining adequate knowledge, skills, and habits for successfully managing finances of individuals and family which includes managing earning, spending, saving, borrowing and investing. Financial literacy helps people to react in a stable manner in case of risk and opportunities.

Murray (2010), is of the opinion that financial literacy is a combination of capabilities which are similar to problem solving and numerical abilities which can also be applied to personal finance. Atkinson and Messy (2011), stated financial literacy as a mix of knowledge, skills, attitude, awareness and behaviours which is important to make effective financial decisions to achieve the goal of financial wellbeing. A person should have knowledge, skills, and attitude for making perfect financial decisions.

Lusardi, and Mitchel (2014), in literature the term Financial Literacy is interchangeably used with financial capability and economic literacy. A nationwide survey by National Council of Applied Economic Research (NCAER), New Delhi and Max New York Life for over 60,000 households has observed that Indians are good savers but poor investors. People in India do have long term goals such as education, marriage, emergency, retirement but they do not have any long term investment plans. This behaviour is common throughout all categories of Indians, whether poor, middle or rich sections.  
Financial literacy is a passport to financial freedom. Financial literacy has three basic components which are appropriate for decision making namely **Financial Knowledge; Financial Behaviour; and Financial Attitude**

**Review of Literature**

Previous research and studies help to strengthen the foundation of the study. In this research also, the following studies have been referred to:

Jean et al. (2021) studied the factors of understanding students' financial literacy based on gender, place of residence, GPA, income level, education level. They concluded that gender and education level were factors in understanding financial literacy. The results proved that education is just a supporter of the knowledge and application of financial literacy.

Lavanya Rekha Bahadur (2015) analysed two pillars of the economy namely financial literacy and financial inclusion, and its current scenario as well as the common people’s perspective about financial instruments. It was found that the level of financial literacy is very low and therefore to encourage financial literacy at the school level, national-level programs should be implemented at the grassroots level.

K N Narendra (2014) concentrated on the role of the Financial Planner in the scenario of overloaded information. The researcher suggested that the persistent and prolonged efforts by all stakeholders to educate and bring down a revolution in India.

Puneet Bhushan and Yajulu Medury (2013) through their research suggested that the overall financial literacy of respondents is not very high. The researchers proved that gender, education, income, nature of employment, and place of work has a positive impact on the financial literacy level. The influence of several socio-demographic variables, namely family income and gender on various dimensions of financial literacy is similar as recorded in other studies in the Indian context.

Jason West (2012) stated that the behaviour of individuals who are financially literate does not necessarily mean they will demonstrate good financial behaviour.

Sumit Agarwal et al. (2010) explained the investment behaviour, liability choice, risk tolerance, and insurance usage of 1,694 Hyderabad respondents who are interested in personal finance. The results showed that the majority of males with higher education levels and aggressive investors are more literate than females and less educated.

**Objectives**

The objective of the study is **to know the factors that affect the awareness of financial literacy among Indians**.

**Research Methodology**

**Sources of Data:**

Primary Data through a structured questionnaire is collected and Secondary Data through published data by Government statistical websites, articles, reports, and other sources are also referred for support and evidence.

**Sampling Design:**

Sample Size: 363 Respondents

KMO and Barlett’s test are applied to test the sample adequacy under Exploratory Factor Analysis.

Sampling Technique: convenience sampling of non-probability techniques.

To identify the factors affecting financial literacy rate, **Exploratory Factor Analysis based on principal component analysis with Varimax rotation through SPSS** is applied.

**Results and Interpretations:**

**Table 1. KMO and Bartlett's Test**

|  |  |  |
| --- | --- | --- |
| **KMO and Bartlett's Test** | | |
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.863 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 4441.564 |
| df | 136 |
| Sig. | 0.000 |

As per the KMO test, the sample adequacy value is 0.863 which is greater than the desired value 0.60. This suggests that the portion of variables data is adequate for factor analysis.

As per Bartlett's Test of Sphericity, the p value is 0.00 (<0.05) which indicates that the null hypothesis is rejected and therefore factor analysis can be carried out.

**Table 2. Reliability Test**

|  |  |
| --- | --- |
| Reliability Statistics | |
| Cronbach's Alpha | N of Items | |
| 0.815 | 19 | |

Cronbach’s Alpha is 0.815, which shows a high level of internal consistency.

**Description of Demographic Variables:**

**Table 3. Gender Classification**

|  |  |
| --- | --- |
| **GENDER** | **No. of RESPONDENTS** |
| FEMALE | 207 |
| MALE | 156 |
| **Total** | 363 |

**Figure 1. Diagrammatic Representation of Gender Classification**

Interpretation:

Out of the total respondents, 57% are females and 43% are males.

**Table 4. Age Classification**

|  |  |
| --- | --- |
| **AGE** | **No. of RESPONDENTS** |
| Below 20 years | 21 |
| 20 to 25 years | 228 |
| 25 to 30 years | 39 |
| 30- to 35 years | 21 |
| 35 to 40 years | 9 |
| Above 40 years | 45 |

**Figure 2. Diagrammatic Representation of Age Classification**

Interpretation: The above figure shows that the majority of the respondents belong to 20-25 years of age group.

**Table 5. Educational Qualification Classification**

|  |  |
| --- | --- |
| **Educational Qualification** | No. of Respondents |
| 10th pass | 3 |
| 12th pass | 9 |
| Graduation | 243 |
| Post-Graduation | 81 |
| Professional (CA, DOCTOR, BANKER, or any other) | 27 |

**Figure 3. Diagrammatic Representation of Educational Qualification Classification**

Interpretation:

The above figure shows that 67% respondents graduated and the least respondents are 10th pass students.

**Table 6. Options Availed in Case of Financial Crises**

|  |  |
| --- | --- |
| **Financial Crises** | **No. of Respondents** |
| Use existing resources | 139 |
| Cut back on spending, spend less, do without, delay a planned expense | 202 |
| Drew money out of savings or transfer savings into current account | 85 |
| Claimed support from the government | 25 |
| Asked for help from family, friends or the community | 64 |
| Sold something that I own | 16 |

**Figure 4. Diagrammatic Representation of Options Availed in Case of Financial Crises**

Interpretation:

On the basis of the above analysis, it can be concluded that in case of financial crises, 38% prefer to cut back on their spending or delay their planned expenses. 26% prefer to use their existing resources. The survey also shows that only 5% prefer to claim support from the government.

**Table 7. Investment/Savings Options Availed**

|  |  |
| --- | --- |
| **INVESTMENT OPTIONS** | **No. of Respondents** |
| Gold | 121 |
| Real Estate | 67 |
| Bank Account | 166 |
| Stock Market/ Commodity market | 124 |
| At home | 52 |
| Any other | 43 |

**Figure 5. Diagrammatic Representation of Investment/Savings Options Availed**

Interpretation:

The research depicts that 29% of respondents prefer to save in Bank account. On the contrary, 9% prefer to save at home.

**Table 8. Financial Planning Options Availed**

|  |  |
| --- | --- |
| **FINANCIAL PLANNING** | **NO. OF RESPONDENTS** |
| Keep a note of your spending | 172 |
| Keep money for bills separate from day-to-day spending money | 88 |
| Make a note of upcoming bills to make sure you don't miss them | 58 |
| Arrange automatic payments for regular outgoings | 70 |
| Use a banking app or money management tool to keep track of your outgoings | 124 |

**Figure 6. Diagrammatic Representation of Financial Planning Options Availed**

Interpretation:

The survey proved that 34% respondents prefer to keep a note of spending while doing financial planning. On the other side, 11% make a note of upcoming bills.

**Table 9. Sources Affecting Financial Decisions**

|  |  |
| --- | --- |
| **SOURCES AFFECTING FINANCIAL DECISIONS** | **NO. OF RESPONDENTS** |
| Online comparison | 106 |
| A recommendation from friends, family members, colleagues | 238 |
| Information from an advert | 55 |
| Help from financial advisor | 64 |

**Figure 7. Diagrammatic Representation of Sources Affecting Financial Decisions**

Interpretation:

The survey proves that 51% of respondents' financial decisions are affected by the recommendation of their family, friends and colleagues.

**Table 10. Preference of Investment**

|  |  |
| --- | --- |
| **I prefer savings/investments/insurance in the** | **NO.OF RESPONDENTS** |
| Government Instruments | 137 |
| Non-Government Instruments | 22 |
| Both | 229 |

**Figure 8. Diagrammatic Representation of Preference of Investment**

Interpretation:

The study proves that 35% respondents prefer to save and invest in government instruments while only 6% prefer non-government instruments.

**Table 10.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Rotated Component Matrixa** | | | | | | |
|  | Components | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 |
| I read all the related documents carefully before savings/investments/insurance | 0.784 | 0.054 | 0.211 | 0.053 | -0.167 | -0.045 |
| I am fully aware about my family's insurance needs ( Life, General, Health, Motor, Travel, Fire etc.) | 0.744 | 0.026 | 0.035 | 0.139 | 0.225 | 0.191 |
| I think Savings/investment/insurance are compulsory in today’s scenario | 0.632 | 0.277 | -0.125 | 0.101 | 0.098 | -0.211 |
| I set long term financial goals and strive to achieve them | 0.616 | 0.047 | -0.204 | 0.216 | -0.072 | 0.123 |
| I am aware about retirement plans and I know my financial needs | 0.591 | 0.272 | 0.098 | -0.088 | 0.194 | -0.056 |
| Return on savings/ insurance is important for me while selecting government or non-governments instruments | 0.585 | 0.138 | -0.401 | 0.127 | -0.104 | -0.073 |
| I prefer to have a financial budget every time | 0.534 | 0.191 | -0.206 | -0.370 | -0.255 | 0.416 |
| Before I buy something I carefully consider whether I can afford it | 0.469 | 0.174 | -0.138 | 0.340 | -0.220 | -0.006 |
| I do savings/investments/insurance on the regular basis | 0.286 | 0.742 | -0.105 | 0.253 | 0.158 | -0.077 |
| I am satisfied with my present financial situation | -0.021 | 0.665 | 0.333 | -0.036 | -0.327 | 0.198 |
| I have money left over at the end of the month | 0.267 | 0.621 | -0.011 | -0.254 | 0.156 | -0.039 |
| I keep a close personal watch on my financial affairs | 0.096 | 0.544 | -0.351 | -0.011 | -0.217 | 0.091 |
| I tend to live for today and let tomorrow take care of itself | -0.027 | -0.087 | 0.760 | 0.031 | 0.029 | -0.124 |
| I find it more satisfying to spend money than to save it for the long term | -0.041 | 0.037 | 0.753 | 0.110 | 0.119 | 0.163 |
| Our education system is providing sufficient knowledge about financial planning | 0.117 | 0.088 | 0.386 | 0.723 | -0.153 | 0.168 |
| My financial situation limits my ability to do the things that are important to me | 0.403 | -0.155 | -0.090 | 0.616 | 0.092 | 0.101 |
| I need help from an expert to manage my finances | -0.022 | -0.062 | 0.231 | -0.117 | 0.771 | 0.073 |
| I pay my bills on time | 0.117 | 0.362 | -0.341 | 0.277 | 0.458 | 0.075 |
| I am only responsible for making financial decisions related to my family. | -0.020 | 0.035 | 0.046 | 0.187 | 0.110 | 0.889 |
| Extraction Method: Principal Component Analysis.   Rotation Method: Varimax with Kaiser Normalization. | | | | | | |
| a. Rotation converged in 12 iterations. | | | | | | |

Interpretation:

In the study, the Rotated component matrix gives six vital factors that affect financial literacy of an individual.

On the basis of loading values, the factors are named as 1. Awareness, 2. Consistency, 3. Carpe diem, 4. Visionary, 5. Dependability, and 6. Responsibility.

**Description of factors:**

Factor 1. **Awareness**

This factor group contains statements related to the individuals’ awareness about the financial aspects, documents related, future financial needs, financial goals, need of savings and investments. The highest loading factor of this group is 0.784 which shows that the individuals are aware, that’s why they are sparing time to read the related documents carefully.

Factor 2. **Consistency**

This factor group contains variables related to savings and investments habits of the individuals, concerned for the financial matters and left over money. The highest loading factor of this group is 0.742. It shows that the individuals are saving and investing on a regular basis.

Factor 3. **Carpe Diem**

This factor group contains statements related to living for today and spending money today rather than saving for the long term. The highest loading factor is 0.760 which shows that the individuals tend to live for today.

Factor 4. **Visionary**

This factor group contains variables related to the knowledge provided by the present education system and to the current financial position. The highest loading factor is 0.723. It depicts that the present education system is providing knowledge and skills to help in being financially literate.

Factor 5. **Dependability**

This factor group contains variables related to the seeking of advice from experts and payment of bills on time. The highest loading factor is 0.771 which shows that before making financial decisions, the individuals depend on the experts’ advice.

Factor 6. **Responsibility**

This factor group contains one statement that shows the individual is responsible for making financial decisions for his family. The loading factor of this factor is 0.889.

**Discussions:**

The first and vital objective of the research is to find out the factors affecting financial literacy of an individual in India. The result of factor analysis came out with six factors namely Awareness, Consistency, Carpe diem, Visionary, Dependability, and Responsibility. The awareness factor is also found by Xu and Zia (2012). According to them financial literacy includes financial awareness and knowledge, financial skills and capability. Studies by Lashhwani. H and Chaurasia. S. (2015) and Bhushan. P. (2014) are also in support of the present study. According to them, highly literate people have more awareness about all financial products.

**Conclusion:**

In recent years, financial literacy is gaining importance as it helps in bringing stability and prosperity to an individual’s life. Yet there is a low level of its awareness in India. The financial literacy of a person depends on many factors. The results of the factor analysis test applied in the current study extracted six factors affecting the financial literacy level of a person. The factors are named as awareness, consistency, carpediem, visionary, dependability, and responsibility.

As there are numerous independent variables to check the dependability of financial literacy, this study concentrates on the impact of education on financial literacy. The result shows that there is no impact of education on the financial literacy of an individual. Although the majority of respondents are graduate and post-graduate.

The study has already explained the various efforts done by the Indian Government to spread awareness about financial literacy, yet there is a need to outreach to masses with efficient and effective strategic planning. Financial literacy is a continuous and dynamic process so it should be implemented at different levels as per the financial needs.

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